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NIO/EUR
30 September 1986EC-CEMA UPDATE

Negotiations are picking up between the EC and individual East European countries toward an eventual EC-CEMA umbrella agreement. Odd man out in this budding relationship is the US.

Both the EC and CEMA have dropped earlier reservations in order to pave the way for an agreement. The Soviets are permitting the East Europeans to deal bilaterally with the EC -- something they had opposed for years -- but only on condition that these ties lead to an eventual EC-CEMA agreement -- an idea previously opposed by the EC. And both sides have agreed to recognize the other's existence as a precondition to serious discussions.

Despite some shared economic goals, the underlying political goals of the two sides are intrinsically opposed:

- The EC hopes to improve its members' access to East European markets, encourage a gradual weaning away of the East Europeans from the USSR, and promote pan-Europeanism.
- The Soviets seek better access to Western technology (S & T having been elevated to CEMA's number one priority), enhanced control over East European foreign trade relations, and increased economic and political penetration of Western Europe -- with the aim of driving wedges between the EC and the US.

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So far, the EC has remained firm on insisting on the development of bilateral ties with individual East European countries, holding out slow progress on an eventual EC-CEMA agreement as an incentive. But the EC will come under mounting pressure from some of its members, as well as from the East Europeans, to move swiftly toward a full-scale EC-CEMA agreement. The EC will probably cave in sooner than it now plans.

Such a development would pose clear problems for the US:

- Economically, we would find ourselves excluded from much of the dialogue on East-West trade.
- Politically, we would face growing Soviet influence in EC affairs; this would be at the margins initially but could expand later as the Soviets play on the "we Europeans" theme.

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At a minimum, there would be a greatly increased Soviet and East European presence at EC headquarters in Brussels.

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On the other side of the ledger, the Soviets have exposed themselves to certain risks by giving the East Europeans the go-ahead in bilateral relations with the EC, and Gorbachev may be overestimating his ability to control separate East European initiatives. Skillful handling by the EC, coupled with friendly persuasion on our part, could turn Soviet plans to our advantage. Two can play at salami tactics.

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